

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Sharon L. Vargo</i>	Printed Name		License Number	

City of Buchanan, Michigan

Financial Report with Supplemental Information June 30, 2007

City of Buchanan, Michigan

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City of Buchanan, Michigan

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Independent Auditor's Report

To the City Commission
City of Buchanan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buchanan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Buchanan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buchanan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Commission
City of Buchanan, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Buchanan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moreau, PLLC

September 28, 2007

City of Buchanan, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Buchanan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in the discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- The City's total governmental net assets increased by \$214,000, or 2.3 percent.
- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$5,500 this year and \$206,800 since 2002. The City reacted by reducing operationally budgeted items as well as capital expenditures.
- Undesignated fund balance of the General Fund increased by \$76,354.
- General Fund expenditures were \$100,000, or 4.4 percent below budget.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Buchanan, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the current year's net assets compared to the prior two years.

	Governmental Activities			Business-type Activities			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Assets									
Current assets	\$ 4,043,579	\$ 3,815,221	\$ 3,604,536	\$ 1,304,245	\$ 931,337	\$ 797,786	\$ 5,347,824	\$ 4,746,558	\$ 4,402,322
Noncurrent assets	<u>6,134,513</u>	<u>6,269,800</u>	<u>6,495,638</u>	<u>4,363,258</u>	<u>4,570,765</u>	<u>4,555,705</u>	<u>10,497,771</u>	<u>10,840,565</u>	<u>11,051,343</u>
Total assets	10,178,092	10,085,021	10,100,174	5,667,503	5,502,102	5,353,491	15,845,595	15,587,123	15,453,665
Liabilities									
Current liabilities	200,550	237,415	227,632	144,621	238,183	239,321	345,171	475,598	466,953
Long-term liabilities	<u>761,053</u>	<u>845,584</u>	<u>918,649</u>	<u>1,023,951</u>	<u>1,073,293</u>	<u>1,211,436</u>	<u>1,785,004</u>	<u>1,918,877</u>	<u>2,130,085</u>
Total liabilities	961,603	1,082,999	1,146,281	1,168,572	1,311,476	1,450,757	2,130,175	2,394,475	2,597,038
Net Assets									
Invested in capital assets -									
Net of related debt	5,343,869	5,389,974	5,545,662	3,172,083	3,176,845	3,223,764	8,515,952	8,566,819	8,769,426
Restricted	1,350,167	1,198,853	1,154,582	109,093	173,322	179,139	1,459,260	1,372,175	1,333,721
Unrestricted (deficit)	<u>2,522,453</u>	<u>2,413,195</u>	<u>2,253,649</u>	<u>1,217,755</u>	<u>840,459</u>	<u>499,831</u>	<u>3,740,208</u>	<u>3,253,654</u>	<u>2,753,480</u>
Total net assets	<u>\$ 9,216,489</u>	<u>\$ 9,002,022</u>	<u>\$ 8,953,893</u>	<u>\$ 4,498,931</u>	<u>\$ 4,190,626</u>	<u>\$ 3,902,734</u>	<u>\$ 13,715,420</u>	<u>\$ 13,192,648</u>	<u>\$ 12,856,627</u>

The City's combined net assets increased 4.0 percent from a year ago - increasing from \$13,192,648 to \$13,715,420. As we look at the governmental activities separately from the business-type activities, we can see that governmental activities net assets increased by 2.4 percent from \$9,002,022 to \$9,216,489, while business-type activities increased by 7.36 percent from \$4,190,626 to \$4,498,931.

City of Buchanan, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year as compared to the prior two fiscal years.

	Governmental Activities			Business-type Activities			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Revenue									
Program revenue:									
Charges for services	\$ 99,442	\$ 84,884	\$ 123,405	\$ 1,434,883	\$ 1,432,689	\$ 1,089,230	\$ 1,534,325	\$ 1,517,573	\$ 1,212,635
Operating grants and contributions	505,046	742,591	565,630	-	-	-	505,046	742,591	565,630
Capital grants and contributions	63,528	40,000	603,026	-	-	-	63,528	40,000	603,026
General revenue:									
Property taxes	1,547,170	1,390,050	1,360,154	-	-	-	1,547,170	1,390,050	1,360,154
State-shared revenue	655,234	660,739	671,332	-	-	-	655,234	660,739	671,332
Unrestricted investment earnings	237,939	77,538	96,068	48,405	13,971	14,945	286,344	91,509	111,013
Miscellaneous	209,798	355,096	138,624	-	-	-	209,798	355,096	138,624
Transfers and other revenue	(21,310)	(21,542)	(21,203)	21,310	21,542	21,203	-	-	-
Total revenue	3,296,847	3,329,356	3,537,036	1,504,598	1,468,202	1,125,378	4,801,445	4,797,558	4,662,414
Program Expenses									
General government	499,644	529,858	493,016	-	-	-	499,644	529,858	493,016
Public safety	1,047,236	944,186	980,683	-	-	-	1,047,236	944,186	980,683
Public works	1,188,630	1,303,880	1,382,023	-	-	-	1,188,630	1,303,880	1,382,023
Health and welfare	131,767	60,898	55,132	-	-	-	131,767	60,898	55,132
Community and economic development	175,782	392,033	241,771	-	-	-	175,782	392,033	241,771
Interest on long-term debt	39,321	50,372	52,666	-	-	-	39,321	50,372	52,666
Water and sewer	-	-	-	1,196,293	1,180,310	1,174,957	1,196,293	1,180,310	1,174,957
Total program expenses	3,082,380	3,281,227	3,205,291	1,196,293	1,180,310	1,174,957	4,278,673	4,461,537	4,380,248
Change in Net Assets	\$ 214,467	\$ 48,129	\$ 331,745	\$ 308,305	\$ 287,892	\$ (49,579)	\$ 522,772	\$ 336,021	\$ 282,166

City of Buchanan, Michigan

Management's Discussion and Analysis (Continued)

During the past fiscal year, governmental activities revenues decreased from \$3,329,356 to \$3,296,847, a decrease of approximately 1 percent. Governmental expenses also decreased from \$3,281,227 to \$3,082,380, an increase of approximately 6 percent.

Within business-type activities, charges for water, sewer, and ready-to-serve remained stable during fiscal 2007, decreasing slightly from \$1,344,261 to \$1,329,049. Business-type expenses remained relatively consistent, increasing only slightly from \$1,180,310 to \$1,196,293. This operating result relates to efforts on management's part to control expenditures and maintain a consistent level of revenue.

Governmental Activities

- The City purchased the property at 204 N. Redbud (formerly known as Golden Farms Candy) in September 2006 for approximately \$225,000. The property is being developed as the new Municipal Complex, including fire and police. The funds were expended from the Municipal Complex Reserves in the General Fund.
- The City sold the Teen Center in June 2007 for \$58,864. The funds received from this sale were placed in the Municipal Complex Reserves in the General Fund. The balance in this reserve account is over \$500,000.
- The Perpetual Care Fund purchased columbariums for Oakridge Cemetery in the amount of \$13,490 in May 2007.
- Street repairs consisting of asphalt patch repairs and street resurfacing for Elizabeth and Lake Streets were completed by Chorba Construction, totaling \$35,484.

Business-type Activities

The Water and Sewer Fund experienced an increase of nearly \$308,000 in retained earnings. On a cash basis, the fund increased approximately \$349,000, which will be used to secure future bonding plans to improve the wastewater plant. The City Commission adopted a new rate policy from the 2005 rate study conducted by Rehman Robson that went into effect on July 1, 2005.

Component Units

Component units include such funds as the Downtown Development Corporation, Andrews Farm TIFA and DDA TIFA, and Brownfield Redevelopment funds. Effective December 1, 2006, Andrews Farm TIF and DDA TIF were dissolved and the Downtown Development Authority will be capturing taxes beginning with summer 2007 taxes.

General Fund Budgetary Highlights

The General Fund pays for most of the City's governmental services. The primary services provided include police and fire services, administrative services, public services, and parks and recreation.

City of Buchanan, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

As shown in the required supplemental information, the City budgeted operational expenditures of \$255,446 of expenditures to be paid from the General Fund fund balance. During the course of the year, the City amended the budget and budgeted expenditures to \$2,298,188. The actual operating results were better than budgeted; the General Fund experienced \$100,430 of unspent budgeted expenditures. The significant budget to actual differences are as follows:

- State-shared revenue decreased by \$5,600 from prior year.
- Property tax revenue increased at a healthy 6.3 percent rate over prior year.
- A total of \$225,000 was expended for the purchase of 204 N. Redbud Trail for the future Municipal Complex.
- The City sold the Teen Center property at 114 N. Oak Street. Voters approved the property sale which was on the ballot of the August 8 election.

Capital Asset and Debt Administration

The City continued making payments on revenue and general obligation bonds incurred to construct major capital related to infrastructure.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next fiscal year reflects another decrease in stated-shared revenue. Current economic conditions in the state of Michigan have put statutory revenue sharing at risk of being reduced. The Commission has adopted a conservative budget that retains current fund balance, but also facilitates community priorities and quality services.

The City retired two water and sewer bonds during the 2006-2007 fiscal year. This will be beneficial in acquiring a new water and sewer revenue bond for improvements to the existing plant. The City also retired the 2005 Ford Crown Vic police car lease.

The DDA Board completed the task of changing the boundaries of the DDA, removing the former Clark property in hopes of generating new captured tax dollars.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city manager's office.

City of Buchanan, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 95,275	\$ 67,459	\$ 162,734	\$ 3,334
Investments (Note 3)	3,784,840	980,875	4,765,715	778,814
Receivables - Net:				
Taxes	14,432	-	14,432	-
Customers	-	255,911	255,911	10,526
Other	10,194	-	10,194	-
Due from other governmental units	138,838	-	138,838	-
Prepaid costs and other assets	-	27,082	27,082	-
Notes receivable	-	-	-	377,500
Restricted assets - Future debt service	-	109,093	109,093	-
Capital assets - Net (Note 4)	6,134,513	4,227,083	10,361,596	-
Total assets	10,178,092	5,667,503	15,845,595	1,170,174
Liabilities				
Accounts payable	58,361	24,465	82,826	1,007
Accrued and other liabilities	13,518	14,466	27,984	-
Customer deposits	-	39,049	39,049	-
Capital leases (Note 6):				
Due within one year	2,572	-	2,572	-
Due in more than one year	8,072	-	8,072	-
Accrued employee benefits:				
Due within one year	46,099	16,641	62,740	-
Due in more than one year	52,981	18,951	71,932	-
Long-term debt (Note 7):				
Due within one year	80,000	50,000	130,000	26,428
Due in more than one year	700,000	1,005,000	1,705,000	408,569
Total liabilities	961,603	1,168,572	2,130,175	436,004
Net Assets				
Invested in capital assets - Net of related debt	5,343,869	3,172,083	8,515,952	-
Restricted:				
Streets	885,501	-	885,501	-
Debt service	-	109,093	109,093	-
Cemetery perpetual care	316,421	-	316,421	-
Small cities grant program	87,310	-	87,310	-
Dial-A-Ride program	60,935	-	60,935	-
Unrestricted	2,522,453	1,217,755	3,740,208	734,170
Total net assets	\$ 9,216,489	\$ 4,498,931	\$ 13,715,420	\$ 734,170

City of Buchanan, Michigan

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 499,644	\$ 5,317	\$ 47,924	\$ -
Public safety	1,047,236	6,771	-	-
Public works	1,188,630	76,393	354,789	-
Recreation and culture	131,767	-	-	63,528
Community economic development	175,782	10,961	102,333	-
Interest on long-term debt	39,321	-	-	-
Total governmental activities	3,082,380	99,442	505,046	63,528
Business-type activities - Water and sewer	1,196,293	1,434,883	-	-
Total primary government	<u>\$ 4,278,673</u>	<u>\$ 1,534,325</u>	<u>\$ 505,046</u>	<u>\$ 63,528</u>
Component units:				
TIFA Andrews Farm	\$ 77,055	\$ -	\$ -	\$ 35,000
TIFA Downtown Development Authority	25,823	-	-	-
Downtown Development Authority	54,772	11,737	20,000	-
Brownfield Redevelopment Authority	18,129	-	26,428	-
Total component units	<u>\$ 175,779</u>	<u>\$ 11,737</u>	<u>\$ 46,428</u>	<u>\$ 35,000</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (446,403)	\$ -	\$ (446,403)	\$ -
(1,040,465)	-	(1,040,465)	-
(757,448)	-	(757,448)	-
(68,239)	-	(68,239)	-
(62,488)	-	(62,488)	-
(39,321)	-	(39,321)	-
(2,414,364)	-	(2,414,364)	-
-	238,590	238,590	-
(2,414,364)	238,590	(2,175,774)	-
-	-	35,000	(42,055)
-	-	-	(25,823)
-	-	-	(23,035)
-	-	-	8,299
-	-	35,000	(82,614)
1,547,170	-	1,547,170	5,867
655,234	-	655,234	-
237,939	48,405	286,344	17,820
209,798	-	209,798	2,046
(21,310)	21,310	-	-
2,628,831	69,715	2,698,546	25,733
214,467	308,305	522,772	(56,881)
9,002,022	4,190,626	13,192,648	791,051
\$ 9,216,489	\$ 4,498,931	\$ 13,715,420	\$ 734,170

City of Buchanan, Michigan

	General Fund	Capital Projects Fund	Major Streets Fund	Street Repair and Maintenance Fund
Assets				
Cash	\$ 14,961	\$ 16,726	\$ 6,842	\$ 2,531
Investments	1,358,001	1,170,685	334,489	172,258
Receivables - Net:				
Taxes	6,416	-	-	-
Other	8,380	-	-	-
Due from other governmental units	81,338	-	41,973	-
Total assets	<u>\$ 1,469,096</u>	<u>\$ 1,187,411</u>	<u>\$ 383,304</u>	<u>\$ 174,789</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 38,346	\$ 3,396	\$ 4,183	\$ -
Accrued and other liabilities	11,950	-	891	-
Deferred revenue	7,768	-	-	-
Total liabilities	58,064	3,396	5,074	-
Fund Balances - Unreserved, reported in				
General Fund	1,411,032	-	-	-
Special Revenue Funds	-	-	378,230	174,789
Capital Projects Funds	-	1,184,015	-	-
Permanent Funds	-	-	-	-
Total fund balances	<u>1,411,032</u>	<u>1,184,015</u>	<u>378,230</u>	<u>174,789</u>
Total liabilities and fund balances	<u>\$ 1,469,096</u>	<u>\$ 1,187,411</u>	<u>\$ 383,304</u>	<u>\$ 174,789</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

Deferred revenue not recorded on government-wide financial statements

Long-term liabilities are not due and payable in the current period and are not reported in the funds

Net assets of governmental activities

**Governmental Funds
Balance Sheet
June 30, 2007**

Dial-A-Ride	Other Non- major Governmental Funds	Total Governmental Funds
\$ 22,007	\$ 32,208	\$ 95,275
38,389	711,018	3,784,840
8,016	-	14,432
-	1,901	10,281
1,485	14,042	138,838
\$ 69,897	\$ 759,169	\$ 4,043,666
\$ 8,962	\$ 3,474	\$ 58,361
-	764	13,605
61,206	18,718	87,692
70,168	22,956	159,658
-	-	1,411,032
(271)	419,792	972,540
-	-	1,184,015
-	316,421	316,421
(271)	736,213	3,884,008
\$ 69,897	\$ 759,169	
		6,134,513
		87,692
		(889,724)
		\$ 9,216,489

City of Buchanan, Michigan

	General Fund	Capital Projects Fund	Major Streets Fund	Street Repair and Maintenance Fund
Revenue				
Property taxes	\$ 1,159,981	\$ -	\$ -	\$ 323,547
Licenses and permits	54,679	-	-	-
Federal sources	-	-	-	-
State sources	655,234	63,528	254,022	-
Charges for services	81,710	-	-	-
Interest and rentals	124,202	56,252	16,607	9,827
Other	178,530	12,750	346	-
Total revenue	2,254,336	132,530	270,975	333,374
Expenditures				
General government	664,131	2,646	-	-
Public safety	987,004	1,346	-	-
Public works	396,743	4,899	223,225	26,651
Recreation and culture	38,080	69,227	-	-
Community economic development	20,000	3,464	-	26,428
Other	65,665	-	-	-
Debt service	3,235	-	125,268	-
Total expenditures	2,174,858	81,582	348,493	53,079
Excess of Revenue Over (Under) Expenditures	79,478	50,948	(77,518)	280,295
Other Financing Sources (Uses)				
Transfers in	19,776	22,900	88,873	-
Transfers out	(22,900)	-	-	(232,171)
Total other financing sources (uses)	(3,124)	22,900	88,873	(232,171)
Net Change in Fund Balances	76,354	73,848	11,355	48,124
Fund Balances - Beginning of year	1,334,678	1,110,167	366,875	126,665
Fund Balances - End of year	<u>\$ 1,411,032</u>	<u>\$ 1,184,015</u>	<u>\$ 378,230</u>	<u>\$ 174,789</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2007

Dial-A-Ride	Other Governmental Funds	Total Governmental Funds
\$ 60,883	\$ -	\$ 1,544,411
-	-	54,679
16,333	28,422	44,755
44,064	100,767	1,117,615
10,961	-	92,671
2,727	36,795	246,410
-	9,717	201,343
134,968	175,701	3,301,884
-	-	666,777
-	-	988,350
-	211,101	862,619
-	-	107,307
134,852	35,816	220,560
-	-	65,665
-	-	128,503
134,852	246,917	3,039,781
116	(71,216)	262,103
-	116,988	248,537
-	(14,776)	(269,847)
-	102,212	(21,310)
116	30,996	240,793
(387)	705,217	3,643,215
<u>\$ (271)</u>	<u>\$ 736,213</u>	<u>\$ 3,884,008</u>

City of Buchanan, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$	240,793
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Current year capital additions		414,790
Current year allocation of depreciation		(550,077)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)		16,273
--	--	--------

Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		89,182
---	--	--------

Decrease in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities		3,506
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Change in Net Assets of Governmental Activities	\$	<u>214,467</u>
--	-----------	-----------------------

City of Buchanan, Michigan

Proprietary Funds Statement of Net Assets June 30, 2007

	Enterprise Fund - Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 67,459
Receivables - Net	255,911
Investments	980,875
Total current assets	1,304,245
Noncurrent assets:	
Restricted assets - Investments	109,093
Capital assets	4,227,083
Other assets	27,082
Total noncurrent assets	4,363,258
Total assets	5,667,503
Liabilities	
Current liabilities:	
Accounts payable	24,465
Accrued and other liabilities	31,107
Customer deposits	39,049
Current portion of long-term debt	50,000
Total current liabilities	144,621
Noncurrent liabilities:	
Accrued employee benefits	18,951
Long-term debt - Net of current portion	1,005,000
Total noncurrent liabilities	1,023,951
Total liabilities	1,168,572
Net Assets	
Investment in capital assets - Net of related debt	3,172,083
Restricted for debt service	109,093
Unrestricted	1,217,755
Total net assets	\$ 4,498,931

City of Buchanan, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Enterprise Fund - Water and Sewer
Operating Revenue	
Charges for services:	
Water	\$ 398,969
Sewer	539,044
Ready to serve	391,036
Penalties	39,817
Other	66,017
	<hr/>
Total operating revenue	1,434,883
Operating Expenses	
Water	360,910
Sewer and industrial pre-treatment	561,792
Depreciation and amortization	209,768
	<hr/>
Total operating expenses	1,132,470
	<hr/>
Operating Income	302,413
Nonoperating Revenue (Expense)	
Investment income	48,405
Interest expense	(63,823)
	<hr/>
Income - Before transfers	286,995
Transfers In	21,310
	<hr/>
Change in Net Assets	308,305
Net Assets - Beginning of year	4,190,626
	<hr/>
Net Assets - End of year	<u>\$ 4,498,931</u>

City of Buchanan, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Enterprise Fund - Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers	\$ 1,410,759
Payments to suppliers	(379,539)
Payments to employees	(547,173)
Net cash provided by operating activities	484,047
Cash Flows from Capital and Related Financing Activities	
Transfers from other funds	21,310
Purchase of capital assets	(66,457)
Principal and interest paid on capital debt	(202,339)
Net cash used in capital and related financing activities	(247,486)
Cash Flows from Investing Activities	
Interest received on investments	48,405
Purchase of investment securities	(249,734)
Net cash used in investing activities	(201,329)
Net Increase in Cash and Cash Equivalents	35,232
Cash and Cash Equivalents - Beginning of year	32,227
Cash and Cash Equivalents - End of year	\$ 67,459
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 302,413
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	209,768
Changes in assets and liabilities:	
Receivables	(23,713)
Accounts payable, customer deposits, and accrued liabilities	(4,421)
Net cash provided by operating activities	\$ 484,047

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2006, the City did not have any noncash investing, capital, and financing activities.

City of Buchanan, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2007

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 34,979
Investments	<u>19,250</u>
Total assets	<u>\$ 54,229</u>
Liabilities	
Due to taxpayers	\$ 18,830
Due to other governmental units	420
Other liabilities	<u>34,979</u>
Total liabilities	<u>\$ 54,229</u>

City of Buchanan, Michigan

Component Units Statement of Net Assets June 30, 2007

	TIFA Andrews Farm	TIFA Downtown Development Corporation	Downtown Development Corporation	Brownfield Redevelopment Authority	Totals
Assets					
Cash	\$ 146	\$ 1,330	\$ 665	\$ 1,193	\$ 3,334
Investments	295,945	92,205	315,669	74,995	778,814
Accounts receivable	-	-	10,526	-	10,526
Notes receivable	250,000	-	122,500	5,000	377,500
Total assets	546,091	93,535	449,360	81,188	1,170,174
Liabilities					
Accounts payable	-	637	370	-	1,007
Long-term debt:					
Due within one year	-	-	-	26,428	26,428
Due in more than one year	-	-	250,000	158,569	408,569
Total liabilities	-	637	250,370	184,997	436,004
Net Assets - Unrestricted	\$ 546,091	\$ 92,898	\$ 198,990	\$ (103,809)	\$ 734,170

City of Buchanan, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants and Contributions
TIFA - Andrews Farm - Economic development	\$ 77,055	\$ -	\$ -	35,000
TIFA Downtown Development Authority - Economic development	25,823	-	-	-
Downtown Development Authority - Economic development	54,772	11,737	20,000	-
Brownfield Redevelopment Authority - Economic development	18,129	-	26,428	-
Total governmental activities	<u>\$ 175,779</u>	<u>\$ 11,737</u>	<u>\$ 46,428</u>	<u>\$ 35,000</u>
General revenues:				
Property taxes				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
Change in Net Assets (Deficit)				
Net Assets (Deficit) - Beginning of year				
Net Assets (Deficit) - End of year				

Component Units
Statement of Activities
June 30, 2007

Net (Expense) Revenue and Changes in Net Assets				
TIFA				
TIFA - Andrews Farm	Downtown Development Authority	Downtown Development Authority	Brownfield Redevelopment Authority	Total
\$ (42,055)	\$ -	\$ -	\$ -	\$ (42,055)
-	(25,823)	-	-	(25,823)
-	-	(23,035)	-	(23,035)
-	-	-	8,299	8,299
(42,055)	(25,823)	(23,035)	8,299	(82,614)
-	1,133	-	4,734	5,867
-	4,863	9,183	3,774	17,820
-	2,046	-	-	2,046
-	8,042	9,183	8,508	25,733
(42,055)	(17,781)	(13,852)	16,807	(56,881)
588,146	110,679	212,842	(120,616)	791,051
\$ 546,091	\$ 92,898	\$ 198,990	\$ (103,809)	\$ 734,170

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Buchanan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Buchanan:

Reporting Entity

The City of Buchanan is governed by an elected five-member commission. In accordance with accounting principles generally accepted in the United States of America, the accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Blended Component Unit - The City's Dial-A-Ride Fund is governed by the City Commission. Although it is legally separate from the City, the Dial-A-Ride is reported as if it were part of the primary government because it is governed by the same legislative authority. This fund is shown on the basis of its fiscal year end of September 30, 2006. The September 30 year end is the fiscal year end of the grant programs from which the Dial-A-Ride Fund receives federal funding.

Discretely Presented Component Units - The following component units are reported within the component units column in the financial statements. They are reported in a separate column to emphasize that they are legally separate from the City of Buchanan. Separate financial statements are not available for the component units presented.

- a. The Downtown Development Authority and TIFA were created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The authorities' governing bodies, which consists of eight individuals each, are selected by the City Commission. In addition, the authorities' budgets are subject to approval by the City Commission.
- b. Andrews Farm TIFA was created to correct and prevent deterioration in the industrial park, encourage historical preservation, and to promote economic growth within the industrial district. The Authority's governing body, which consists of nine individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission. The Authority is in the process of being dissolved, with no future tax collections anticipated. Remaining fund balance will be spent on related projects, and the fund should be closed in the upcoming fiscal year.

Note 1 - Summary of Significant Accounting Policies (Continued)

- c. Brownfield Redevelopment was created to clean up State of Michigan designated Brownfield sites within the City of Buchanan and prepare these sites for new development. The Authority's governing body, which consists of five individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, for special assessments and federal grant reimbursements that will be collected after the period of availability, receivables have been recorded along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, the City has chosen to first apply restricted sources.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for assets being accumulated for future capital expenditures and other large projects.

The Major Streets Fund is a Special Revenue Fund that accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Street Repair and Maintenance Fund is a Special Revenue Fund that accounts for the property tax revenues that are restricted for use on street repairs and maintenance.

The Dial-A-Ride Fund is a Special Revenue Fund that accounts for the revenues related to providing bus services.

The City reports the following major proprietary fund:

The Water and Sewer Fund is used to account for the provision of services to citizens that are financed primarily by user charges for the provision of those services.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 16, at which time penalties and interest are assessed.

The 2006 taxable valuation of the City totaled \$81 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 17.1000 mills for operating purposes (13.1000 mills is allocated to the General Fund and 4.0000 mills is allocated to the Street Repair and Maintenance Fund) and 0.7500 mills for the Dial-A-Ride Fund. This resulted in approximately \$1,385,000 for operating and \$61,000 for transportation services. These amounts are recognized in the respective General, Street Repair and Maintenance, and Dial-A-Ride Funds financial statements as tax revenue.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue Fund, and Enterprise Funds are generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide and proprietary fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20 years
Buildings and building improvements	10 to 100 years
Vehicles	3 to 25 years
Machinery and equipment	5 to 20 years
Office furnishings and equipment	3 to 10 years
Water and sewer distribution systems	15 to 75 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2006	\$ (245,263)
Current year building permit revenue	6,283
Related expenses - Direct costs	<u>(45,143)</u>
Shortfall at June 30, 2007	<u>\$ (284,123)</u>

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Fund Balance Deficit - The Dial-A-Ride Fund, a Special Revenue Fund, shows a fund balance deficit as of its September 30, 2006 fiscal year end. The deficits will be eliminated in the next fiscal year through additional local and grant revenue, and an increased property tax millage.

Net Asset Deficit - The City's Brownfield Redevelopment Authority component unit shows a net deficit at the government-wide level at June 30, 2007. However, on the modified accrual basis, the component unit has a positive fund balance of \$76,188. The deficit net asset position is due to the requirement under GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to record the component unit's long-term debt at the government-wide level. This long-term debt has no corresponding asset to offset the negative impact to net assets.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated one bank for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The investments held by the City's component units are commingled with the primary government's investments shown below.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$886,851 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

Investment	Fair Value	How Held
Ginnie Mae Pooled Fund	\$ 130,331	Counterparty's trust department
Federal Home Loan Mortgage	793,820	Counterparty's trust department
Federal National Mortgage Association	914,630	Counterparty's trust department
Federal Farm Credit Bank	492,815	Counterparty's trust department
Federal Home Loan Bank	1,033,939	Counterparty's trust department

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity - Years
Ginnie Mae Pooled Fund	\$ 130,331	8.07
Federal Home Loan Mortgage	793,820	3.78
Federal National Mortgage Association	914,630	1.40
Federal Farm Credit Bank	492,815	2.78
Federal Home Loan Bank	1,033,939	2.59
U.S. Treasury notes	1,422,266	1.45

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Organization
Federal Home Loan Mortgage	\$ 793,820	Aaa	Moody's
Federal National Mortgage Association	914,630	Aaa	Moody's
Federal Farm Credit Bank	492,815	Aaa	Moody's
Federal Home Loan Bank	1,033,939	Aaa	Moody's

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

The City places no limit on the amount that may be invested in any one issuer. More than 5 percent of the City's investments are in the following investments:

Investment	Percent
Federal Home Loan Mortgage	17
Federal National Mortgage Association	19
Federal Farm Credit Bank	10
Federal Home Loan Bank	22
U.S. Treasury notes	30

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 567,218	\$ 11,317	\$ -	\$ 578,535
Construction in progress	-	13,604	-	13,604
Subtotal	567,218	24,921	-	592,139
Capital assets being depreciated:				
Roads and sidewalks	10,160,253	131,221	-	10,291,474
Buildings and improvements	1,384,302	238,725	(50,000)	1,573,027
Vehicles	1,576,809	-	-	1,576,809
Machinery and equipment	457,627	3,325	-	460,952
Office furnishings and equipment	67,512	16,598	-	84,110
Subtotal	13,646,503	389,869	(50,000)	13,986,372
Accumulated depreciation:				
Roads and sidewalks	5,377,253	427,585	-	5,804,838
Buildings and improvements	959,494	34,698	(50,000)	944,192
Vehicles	1,199,782	56,693	-	1,256,475
Machinery and equipment	358,089	23,608	-	381,697
Office furnishings and equipment	49,303	7,493	-	56,796
Subtotal	7,943,921	550,077	(50,000)	8,443,998
Net capital assets being depreciated	5,702,582	(160,208)	-	5,542,374
Net capital assets	\$ 6,269,800	\$ (135,287)	\$ -	\$ 6,134,513

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 9,971	\$ -	\$ -	\$ 9,971
Construction in progress	-	38,113	-	38,113
Subtotal	9,971	38,113	-	48,084
Capital assets being depreciated:				
Water and sewer distribution systems	4,822,915	6,784	(7,044)	4,822,655
Buildings and building improvements	2,280,798	-	(16,563)	2,264,235
Machinery and equipment	759,339	21,560	23,607	804,506
Subtotal	7,863,052	28,344	-	7,891,396
Accumulated depreciation:				
Water and sewer distribution systems	1,369,819	111,290	-	1,481,109
Buildings and building improvements	1,488,219	42,108	-	1,530,327
Machinery and equipment	644,591	56,370	-	700,961
Subtotal	3,502,629	209,768	-	3,712,397
Net capital assets being depreciated	4,360,423	(181,424)	-	4,178,999
Net capital assets	\$ 4,370,394	\$ (143,311)	\$ -	\$ 4,227,083

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 14,564
Public safety	71,595
Public works	439,459
Culture and recreation	24,459
Total governmental activities	\$ 550,077
Business-type activities - Water and sewer	\$ 209,768

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Interfund

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfers Out			
	General Fund	Street Repair and Maintenance Fund	Cemetery Perpetual Care	Total Primary Government
Transfers in:				
General Fund	\$ -	\$ 5,000	\$ 14,776	\$ 19,776
Capital Projects Fund	22,900	-	-	22,900
Major Streets Fund	-	88,873	-	88,873
Local Streets Fund	-	116,988	-	116,988
Proprietary Fund	-	21,310	-	21,310
Total primary government	<u>\$ 22,900</u>	<u>\$ 232,171</u>	<u>\$ 14,776</u>	<u>\$ 269,847</u>

The City transfers funds raised by the tax millage from the Street Repair and Maintenance Fund to the Major and Local Roads Funds to fund street repairs. The General Fund transfers funds to the Capital Projects Fund to finance future capital expenditures.

Note 6 - Capital Leases

The City has entered into three lease agreements as lessee for financing the purchase of a police vehicle, two copy machines for the City Hall and Police Department, and a heavy-duty sewer truck. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities -					
Equipment lease payable	<u>\$ 19,826</u>	<u>\$ -</u>	<u>\$ (9,182)</u>	<u>\$ 10,644</u>	<u>\$ 2,572</u>
Business-type Activities -					
Equipment lease payable	<u>\$ 28,516</u>	<u>\$ -</u>	<u>\$ (28,516)</u>	<u>\$ -</u>	<u>\$ -</u>

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Capital Leases (Continued)

The future minimum lease obligations and the net present value are as follows:

	Governmental Activities		
	Present Value	Amount Representing Interest	Total Minimum Lease Payments
2008	\$ 2,572	\$ 663	\$ 3,235
2009	2,758	477	3,235
2010	2,957	278	3,235
2011	2,357	69	2,426
Total	<u>\$ 10,644</u>	<u>\$ 1,487</u>	<u>\$ 12,131</u>

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Accrued employee benefits	\$ 102,586	\$ -	\$ 3,506	\$ 99,080	\$ 46,099
General obligation bonds - Michigan					
Transportation Bonds	860,000	-	80,000	780,000	80,000
Total governmental activities	<u>\$ 962,586</u>	<u>\$ -</u>	<u>\$ 83,506</u>	<u>\$ 879,080</u>	<u>\$ 126,099</u>
Business-type Activities					
Accrued employee benefits	\$ 34,591	\$ 1,001	\$ -	\$ 35,592	\$ 16,641
Revenue bonds - Series 2000A State					
Revenue Sharing Bond	1,100,000	-	45,000	1,055,000	50,000
Revenue bonds - Series 1997A State					
Revenue Sharing Bond	65,000	-	65,000	-	-
Total business-type activities	<u>\$ 1,199,591</u>	<u>\$ 1,001</u>	<u>\$ 110,000</u>	<u>\$ 1,090,592</u>	<u>\$ 66,641</u>

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component Unit Activities					
State of Michigan CDBG Loan	\$ 211,425	\$ -	\$ 26,428	\$ 184,997	\$ 26,428
Andrews Farm TIFA loan to DDA	-	250,000	-	250,000	-
Total component unit activities	<u>\$ 211,425</u>	<u>\$ 250,000</u>	<u>\$ 26,428</u>	<u>\$ 434,997</u>	<u>\$ 26,428</u>

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 80,000	\$ 40,493	\$ 120,493	\$ 50,000	\$ 59,093	\$ 109,093
2009	85,000	36,078	121,078	55,000	56,349	111,349
2010	85,000	31,466	116,466	55,000	53,434	108,434
2011	95,000	26,538	121,538	60,000	50,343	110,343
2012	100,000	21,175	121,175	65,000	46,951	111,951
2013-2017	335,000	28,463	363,463	380,000	174,560	554,560
2018-2022	-	-	-	390,000	48,300	438,300
Total	<u>\$ 780,000</u>	<u>\$ 184,213</u>	<u>\$ 964,213</u>	<u>\$ 1,055,000</u>	<u>\$ 489,030</u>	<u>\$ 1,544,030</u>

	Component Unit Activities		
	Principal	Interest	Total
2008	\$ 26,428	\$ -	\$ 26,428
2009	26,428	-	26,428
2010	26,428	-	26,428
2011	26,428	-	26,428
2012	51,428	-	51,428
2013-2017	177,857	-	177,857
2018-2022	100,000	-	100,000
Total	<u>\$ 434,997</u>	<u>\$ -</u>	<u>\$ 434,997</u>

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims, and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation and property liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Pension Plan

Plan Description - The City participates in the Municipal Employees' Retirement System of Michigan, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent of gross wages.

Annual Pension Cost - For the year ended June 30, 2007, the City's annual pension cost of \$55,186 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, including an inflation component of 4.5 percent, (b) projected salary increases of 4.5 percent per year, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year depending on age, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

City of Buchanan, Michigan

Notes to Financial Statements June 30, 2007

Note 9 - Pension Plan (Continued)

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2005	2006	2007
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 13,396	\$ 45,845	\$ 55,186
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 6,227,274	\$ 6,366,763	\$ 6,641,401
Actuarial Accrued Liability (AAL)			
(entry age)	5,202,838	5,328,663	5,442,866
Overfunded ALL (UALL)	1,024,436	1,038,100	1,198,535
Funded ratio	119.7%	119.5%	122.0%
Covered payroll	1,163,218	1,222,080	1,312,507

Note 10 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees. The City pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the City's group rates. Currently, eight retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2007, the City made payments for postemployment health benefit premiums of approximately \$76,000. The government obtains healthcare coverage through Municipal Benefit Services, a part of the Michigan Municipal League risk pool program.

Upcoming Reporting Change - The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Required Supplemental Information

City of Buchanan, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,045,090	\$ 1,045,090	\$ 1,159,981	\$ 114,891
State sources	667,977	667,977	655,234	(12,743)
Fees and permits	86,775	86,775	54,679	(32,096)
Fines and forfeitures	7,200	7,200	-	(7,200)
Charges for services	57,100	57,100	81,710	24,610
Interest and rental income	25,000	25,000	124,202	99,202
Other	107,600	107,600	147,530	39,930
Transfers in	46,000	46,000	50,776	4,776
Total revenue	2,042,742	2,042,742	2,274,112	231,370
Expenditures				
General government:				
City commission	25,848	275,848	261,610	14,238
City manager	117,908	134,370	123,343	11,027
Elections	23,260	25,760	21,741	4,019
Assessor	34,930	35,180	32,516	2,664
City clerk	51,011	56,836	51,276	5,560
Treasurer	111,651	107,831	102,186	5,645
Building and grounds	69,339	80,114	77,496	2,618
Property rental	9,025	1,625	999	626
Public safety:				
Police	855,580	814,985	830,061	(15,076)
Fire	110,477	112,302	101,676	10,626
Crossing guards	27,162	27,162	24,223	2,939
Building inspector	52,140	54,340	45,143	9,197
Public works:				
Street maintenance	271,726	273,401	257,486	15,915
Cemetery	150,713	163,238	144,257	18,981
Culture and recreation:				
Parks and recreation	40,578	40,578	37,214	3,364
Teen center	1,680	1,080	866	214
Transfers and other costs	95,160	93,538	85,665	7,873
Total expenditures	2,048,188	2,298,188	2,197,758	100,430
Excess of Revenue Over (Under) Expenditures	(5,446)	(255,446)	76,354	331,800
Fund Balance - Beginning of year	1,334,678	1,334,678	1,334,678	-
Fund Balance - End of year	<u>\$ 1,329,232</u>	<u>\$ 1,079,232</u>	<u>\$ 1,411,032</u>	<u>\$ 331,800</u>

City of Buchanan, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 272,437	\$ 272,437	\$ 254,022	\$ (18,415)
Interest income	2,500	2,500	16,607	14,107
Other	4,350	4,350	346	(4,004)
Transfers in	106,167	106,167	88,873	(17,294)
Total revenue	385,454	385,454	359,848	(25,606)
Expenditures				
Routine street maintenance	82,665	82,665	71,339	11,326
Tree and shrub maintenance	47,558	47,558	42,245	5,313
Drainage	22,291	22,291	18,943	3,348
Traffic service maintenance	29,391	29,391	27,265	2,126
Winter maintenance	56,867	56,867	49,697	7,170
Administrative and record maintenance	19,489	19,489	13,736	5,753
Debt retirement	125,993	125,993	125,268	725
Total expenditures	384,254	384,254	348,493	35,761
Excess of Revenue Over Expenditures	1,200	1,200	11,355	10,155
Fund Balance - Beginning of year	366,875	366,875	366,875	-
Fund Balance - End of year	<u>\$ 368,075</u>	<u>\$ 368,075</u>	<u>\$ 378,230</u>	<u>\$ 10,155</u>

City of Buchanan, Michigan

Required Supplemental Information

Budgetary Comparison Schedule - Street Repair and Maintenance Fund

Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 301,578	\$ 301,578	\$ 323,547	\$ 21,969
Interest income	<u>4,500</u>	<u>4,500</u>	<u>9,827</u>	<u>5,327</u>
Total revenue	306,078	306,078	333,374	27,296
Expenditures - Public works	<u>306,078</u>	<u>306,078</u>	<u>285,250</u>	<u>20,828</u>
Excess of Revenue Over Expenditures	-	-	48,124	48,124
Fund Balance - Beginning of year	<u>126,665</u>	<u>126,665</u>	<u>126,665</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 126,665</u></u>	<u><u>\$ 126,665</u></u>	<u><u>\$ 174,789</u></u>	<u><u>\$ 48,124</u></u>

City of Buchanan, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Dial-A-Ride Fund Year Ended September 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 55,188	\$ 55,188	\$ 60,883	\$ 5,695
Federal sources	11,476	11,476	16,333	4,857
State sources	50,347	50,347	44,064	(6,283)
Farebox revenue	14,000	14,000	10,961	(3,039)
Interest income and miscellaneous	-	-	2,727	2,727
Total revenue	<u>131,011</u>	<u>131,011</u>	<u>134,968</u>	<u>3,957</u>
Expenditures - Operating costs - Purchased transportation service	<u>131,011</u>	<u>131,011</u>	<u>134,852</u>	<u>(3,841)</u>
Excess of Revenue Over Expenditures	-	-	116	116
Fund Balance (Deficit) - Beginning of year	<u>(387)</u>	<u>(387)</u>	<u>(387)</u>	<u>-</u>
Fund Balance (Deficit) - End of year	<u><u>\$ (387)</u></u>	<u><u>\$ (387)</u></u>	<u><u>\$ (271)</u></u>	<u><u>\$ 116</u></u>

City of Buchanan, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Budgetary Information

The annual budget is prepared by the City management and adopted by the City Commission; subsequent amendments are approved by the City Commission. The budgets are prepared on a basis consistent with generally accepted accounting principles except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

The budgetary comparison schedules are presented on the same basis of accounting used in preparing the adopted budget.

The Dial-A-Ride Fund is a Special Revenue Fund contained in the governmental funds statement of revenue, expenditures, and changes in fund balance. This fund accounts for a blended component unit, which has a September 30 year end. This fund is budgeted on the September 30 fiscal year, rather than the City's June 30 year end. Therefore, the required supplemental information includes a budget for the year October 1, 2005 through September 30, 2006.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City had a significant expenditure budget overrun as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - Police	\$ 814,985	\$ 830,061

Other Supplemental Information

City of Buchanan, Michigan

Special Revenue Funds				
	Local Streets	Farmer's Market	Small Cities Program	Housing Grant
Assets				
Cash	\$ 11,703	\$ -	\$ 1,010	\$ 17,421
Investments	310,904	-	86,300	-
Receivables - Net	71	-	-	1,297
Due from other governmental units	14,042	-	-	-
Total assets	<u>\$ 336,720</u>	<u>\$ -</u>	<u>\$ 87,310</u>	<u>\$ 18,718</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 3,474	\$ -	\$ -	\$ -
Accrued and other liabilities	764	-	-	-
Deferred revenue	-	-	-	18,718
Total liabilities	4,238	-	-	18,718
Fund Balances	<u>332,482</u>	<u>-</u>	<u>87,310</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 336,720</u>	<u>\$ -</u>	<u>\$ 87,310</u>	<u>\$ 18,718</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Nonexpendable
Trust Fund

Cemetery Perpetual Care	Total Nonmajor Governmental Funds
\$ 2,074	\$ 32,208
313,814	711,018
533	1,901
<u>-</u>	<u>14,042</u>
<u>\$ 316,421</u>	<u>\$ 759,169</u>

\$ -	\$ 3,474
-	764
<u>-</u>	<u>18,718</u>
-	22,956
<u>316,421</u>	<u>736,213</u>
<u>\$ 316,421</u>	<u>\$ 759,169</u>

City of Buchanan, Michigan

	Special Revenue Funds		
	Local Streets	Farmer's Market	Small Cities Program
Revenue			
Federal sources	\$ -	\$ -	\$ -
State sources	100,767	-	-
Interest income	16,484	96	4,225
Other	346	-	-
Total revenue	117,597	96	4,225
Expenditures			
Routine street maintenance	80,072	-	-
Tree and shrub maintenance	40,434	-	-
Drainage	17,956	-	-
Traffic service maintenance	16,218	-	-
Winter maintenance	27,606	-	-
Administrative	13,841	-	-
Economic development	-	-	6,680
Public works	-	-	-
Total expenditures	196,127	-	6,680
Excess of Revenue Over (Under)			
Expenditures	(78,530)	96	(2,455)
Other Financing Sources (Uses)			
Transfers in	116,988	-	-
Transfers out	-	-	-
Total other financing sources (uses)	116,988	-	-
Net Change in Fund Balances	38,458	96	(2,455)
Fund Balances (Deficit) - Beginning of year	294,024	(96)	89,765
Fund Balances - End of year	\$ 332,482	\$ -	\$ 87,310

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances (Deficit) - Nonmajor Governmental Funds
Year Ended June 30, 2007

		Nonexpendable Trust	
Housing Grant	Cemetery Perpetual Care		Total Nonmajor Governmental Funds
\$ 28,422	\$ -	\$	28,422
-	-		100,767
-	15,990		36,795
714	8,657		9,717
29,136	24,647		175,701
-	-		80,072
-	-		40,434
-	-		17,956
-	-		16,218
-	-		27,606
-	-		13,841
29,136	-		35,816
-	14,974		14,974
29,136	14,974		246,917
-	9,673		(71,216)
-	-		116,988
-	(14,776)		(14,776)
-	(14,776)		102,212
-	(5,103)		30,996
-	321,524		705,217
<u>\$ -</u>	<u>\$ 316,421</u>	<u>\$</u>	<u>736,213</u>

City of Buchanan, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds June 30, 2007

	Agency Funds		
	Trust and Agency	Tax Collection	Totals
Assets			
Cash	\$ 34,979	\$ -	\$ 34,979
Investments	-	19,250	19,250
Total assets	<u>\$ 34,979</u>	<u>\$ 19,250</u>	<u>\$ 54,229</u>
Liabilities			
Due to taxpayers	\$ -	\$ 18,830	\$ 18,830
Due to other governmental units	-	420	420
Other liabilities	34,979	-	34,979
Total liabilities	<u>\$ 34,979</u>	<u>\$ 19,250</u>	<u>\$ 54,229</u>



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September 28, 2007

To the City Commission
City of Buchanan
Buchanan, Michigan

Dear Commission Members:

In planning and performing our audit of the financial statements of the City of Buchanan (the "City") as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

Journal Entries Identified During Audit

Certain adjustments were identified by Plante & Moran during the audit and recorded as adjusting entries. The City did not record one of the adjustments from the fiscal 2006 audit and thus had an incorrect fund balance throughout the current year.

Other Matters

We also offer the following comments, which are informational in nature:

Statements on Auditing Standards Nos. 104 to 111 - The Risk Assessment Standards

The AICPA issued Statements on Auditing Standards (SAS 104 to SAS 111) which will substantially affect the auditing process. The effective date for your audits will be for the audit of the financial statements for the year ending June 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require:

- The auditor to obtain a deeper understanding of (1) the City and its internal control, for the purpose of identifying the risks of material misstatement in the financial statements, and (2) what the City is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We have invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance to the requirements, which is tailored to the unique environment for Michigan municipals. As a result, our 2008 audit process will have many new features and elements built in. We will work with you to understand the elements, involve you in the information gathering process, and perform audit tests focused on the risks embedded in the City's financial statements. To provide you with as much lead time as possible in the data gathering process, we will review the information needs and provide the necessary tools in the next several months.

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the Major and Local Street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. These provisions sunset on December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

Personal Property Tax

Over the last seven years, the State's personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in an approximate drop in property tax revenue of 10 percent. In addition, the State Tax Commission also approved new personal property tax tables for utilities which made drastic changes to transmission and distribution property of utilities (resulting in approximately 30 percent revenue loss to local units of government). Also, the Michigan Supreme Court in *WPW Acquisition Co v. City of Troy* ruled that the Proposal A cap prevents assessors from increasing the taxable value of commercial rental property above the rate of inflation using the occupancy methodology even when reductions in taxable value were previously granted due to a decrease in occupancy.

The new Michigan business tax also provides more personal property tax relief to business taxpayers (see details below). Even with this most recent relief provided in June 2007 through the MBT, further reductions to personal property tax remain part of the State's tax structure discussions. Personal property taxes are a significant revenue source to many local governments. For the City, personal property tax represents 12 percent of its tax base. If the State's new business tax structure provides personal property tax relief, the question is will local governments be held harmless by the State and to what extent? The governor's tax plan as introduced proposes to change the property tax system to mitigate the impact of the WPW case. A similar attempt to make this correction occurred in 2005 and 2006 with no success.

New Michigan Business Tax

As previously indicated, the new Michigan business tax (MBT) was approved by the legislature in June 2007 and replaces the single business tax (SBT) which expires December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT.

While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. The new MBT imposes two taxes - a modified gross receipts tax and a business income tax. The modified gross receipts tax is imposed at .8 percent on a tax base composed of gross receipts less certain purchases. The business income tax will be imposed at a rate of less than 5 percent on business income. The MBT provides for new investment, compensation, and research and development credits to businesses. The MBT also allows certain qualified small businesses to opt out of the MBT and pay a straight 1.8 percent tax on adjusted business income.

More personal property tax relief is also part of the new MBT. Business personal property classified as “industrial” or “commercial” will be exempt from certain personal property taxes - specifically from the State Education Tax (SET) and local school operating mills. “Industrial” personal property will receive exemptions from the 6 SET mills and the 18 schools operating mills (for a total 24 mill exemption). “Commercial” personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. For local governments that have enacted an administrative fee on tax collections, they will likely see a decrease in the administration fees that have traditionally been collected. Also, for those local governments with tax increment financing authorities that continue to have existing eligible obligations outstanding and are therefore allowed to capture school taxes (to the extent of these eligible obligations), the personal property tax exemptions on school millages will likely decrease the amount of school taxes available to capture.

Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees; impact on school dollars available for capture for certain tax increment financing authorities; property classifications) that are the most directly impacted by the new MBT.

We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City’s year end (December 31, 2007) and is good for one year thereafter.

Revenue Sharing

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January and May 2007 revenue estimating conferences. According to economists, Michigan is still approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changes to Michigan's Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007 which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Rumors of further changes to Michigan's tax structure continue to circulate around Lansing as the legislature continues its work on the State's fiscal year 2007/2008 budget and solving the estimated \$1.8 billion deficit that exists.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue sharing act (taxable value per capita, population/unit type and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments.

While the debate is in process and all indications point to a very busy fall season for the legislature, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal year 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State.

This communication is intended solely for the information and use of management, the City Commission, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Sharon L. Vargo".

Sharon L. Vargo, CPA
Partner